

**BEFORE THE TENNESSEE REGULATORY AUTHORITY**  
**NASHVILLE, TENNESSEE**

JUL 21 11 58 AM '97

In Re:

Universal Service Generic  
Contested Case

Docket No. 97-00888

SECRETARY

**MCI TELECOMMUNICATIONS CORPORATION'S RESPONSES TO REQUEST  
FOR COMMENTS**

**ISSUES FOR CONSIDERATION<sup>1</sup>**

**IV. Definition of Universal Service:**

Under Tennessee law, Universal Service is defined in Tenn. Code Ann. § 65-5-207 (a). The Telco Act section 254 (c) defines Universal Service.

Under section 254 (f), the Act provides a State may adopt regulations "not inconsistent with the Commission's rules to preserve and advance universal service."

**A. ISSUE:** Is Tennessee's definition under Tenn. Code Ann. § 65-5-207 (a), consistent with the Federal Act's definition of Universal Service? If not, is Tennessee's definition preempted by the Federal Act?

**RESPONSE:** The Tennessee and FCC's definitions of Universal Service are substantially the same. The FCC's definition, however, does not limit universal service support to the primary single residential line, but permits support for single line business services. Since it would appear that single line business rates are greater than the cost to provide the service, it would not appear that a subsidy is required.

**B. ISSUE:** Should the TRA recommend to the Tennessee legislature that they adopt the Federal definition of Universal Service?

**RESPONSE:** There does not appear to be a need to amend the Tennessee statute.

**C. ISSUE:** Whether the Federal or Tennessee definition of Universal Service or some combination of both is followed, what services should be provided?

**RESPONSE:** The FCC defines universal service as - single party service; voice grade access to the public switched network; DTMF signaling or its functional equivalent; access to emergency services; access to operator services; access to interexchange services; access to directory assistance; and toll

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<sup>1</sup>Issue statements and questions and the numbering of Issues follows and was taken directly from the Hearing Officer's Notice of Proposed Schedule and Request for Comments issued in this docket.

limitation services for qualifying low-income consumers. MCI believes this service should be limited to primary single line residential service.

**D. ISSUE:** Should the TRA provide for additional support under a Tennessee mechanism, for services in addition to those set forth by the FCC?

**RESPONSE:** No. MCI does not believe the TRA should add additional services at this time.

**E. ISSUE:** Should the TRA adopt specific procedures for passing upon "exceptional circumstances" as set forth in paragraphs 89-92 of the FCC order?

**RESPONSE:** No position at this time.

**F. ISSUE:** Are there any telephone companies that will not be able to offer all the elements of Universal Service by the end of 1998? (e.g. toll blocking). If this is a problem, what steps are needed to remedy the situation?

**RESPONSE:** MCI's switches will perform all of the functions required for eligibility for Universal Service funding.

## **V. Affordability:**

### **A. Define and consider affordability of rates:**

Section 254 (b)(1) of the Telco Act provides that "quality services should be available at just, reasonable, and affordable rates." The definition of affordability contains both an absolute component "to have enough or the means for", which takes into account an individual's means to subscribe to Universal Service; and a relative component "to bear the cost of without serious detriment", which takes into account whether consumers are spending a disproportionate amount of their income on telephone service.

**1. ISSUE:** Provided that existing rates were set to the "just and reasonable" standard pursuant to Tenn. Code Ann § 65-5-201, is there an assumption that current rates are set at an affordable level?

**RESPONSE:** Not necessarily, unless the establishment of "just and reasonable" rates took into consideration the factors concerning affordability such as those listed in Section V of the FCC Order. Just and reasonable rates have reference to the appropriate rates necessary for a utility to have an opportunity to earn a fair return on their investment in a rate base rate of return regulatory environment. As discussed in Section V of the FCC Order, affordability takes into consideration income levels of the consumer and cost of living and other socioeconomic indicators.

**2. ISSUE:** Does the existence of programs to support low income consumers, further the argument that current rates meet the affordability requirement in Tennessee?

**RESPONSE:** Programs to support low income consumers confirm that there has been a recognition of targeted subsidies for particular income groups based on an apparent determination that current rate levels were not affordable for those consumers. In the absence of an analysis of the factors listed in Section V of the FCC Order, no conclusion can be drawn as to whether current rates are too low or too high for the broad base of Tennessee consumers.

**3. ISSUE:** Are there other factors that should be considered?

**RESPONSE:** No position at this time.

**B. ISSUE:** The FCC did not choose to adopt a nationwide rate for Universal Service. Should Tennessee adopt a statewide universal rate?

**RESPONSE:** As noted by the FCC in paragraph 118 of its Universal Service Order, state commissions are best suited to make this determination. The FCC suggests that relevant criteria to be evaluated include income levels in various areas of the state, local calling area size and scope, cost of living, and population density. The TRA could decide either that one statewide rate is most appropriate, perhaps for its relative ease of administration, or that different rates for different parts of the state would better serve consumers' needs. Either determination can be accommodated under a reformed Universal Service plan and both positions have valid arguments supporting them. One thing to note, however, is that affordability has nothing at all to do with the LEC serving a particular consumer. Even if the TRA determines that what constitutes an affordable rate varies significantly among areas in Tennessee, the varying affordable rate would have no relation to the serving LEC.

**C. ISSUE:** Define explicit subsidy.

**PROPOSAL FOR COMMENT:** Explicit subsidy is a support that is calculable and identifiable vs. implicit subsidy which generally means there is a support but the exact amount of that support has not been determined. Is there a more appropriate definition?

**RESPONSE:** The above stated definition appears adequate. Explicit subsidies are those that have been calculated with reference to a determination of economic costs and compared to the relevant revenues which are supplied to recover that cost. Where the costs exceed the revenues, a subsidy exists. The amount of that subsidy can be stated and funded in a competitively neutral manner. Implicit subsidies for universal service allegedly exist today and are collected through access charges. However, the amount of the subsidy necessary for universal service has never been determined.

**D. ISSUE:** How may complaints filed on the affordability of intrastate rates be addressed?

**RESPONSE:** No position at this time.

**PROPOSAL REQUESTED:** The FCC identifies several components to be considered when determining affordability of rates, such as subscribership levels, size of local calling area, consumer income level, cost of living, etc. What procedures would be least burdensome on carriers and the TRA, and would provide the information necessary to determine if rates are affordable on an ongoing basis?

**RESPONSE:** The TRA should establish a working group with the industry and consumer groups to determine the type of data that is needed. Once the data needs have been identified, the working group can see what public information is available.

## **VI. Carriers Eligible for Universal Service Support**

**A. ISSUE** Define carrier of last resort.

**PROPOSAL FOR COMMENT:** The Staff defines carrier of last resort as the carrier ultimately responsible for the provision of telephone service including the provision of Universal Service core elements in a given area. Is there a better definition?

**RESPONSE:** See Response to Issue C.

**B. ISSUE:** Determine if a carrier of last resort designation is necessary.

**RESPONSE:** See Response to Issue C.

**PROPOSAL FOR COMMENT:** The designation of a carrier of last resort for a given region is necessary to ensure that all Tennessee consumers are provided with telecommunications services. If no carrier of last resort is designated there is the potential danger of some consumers not being served. At what point, in any, would carrier of last resort designation become unnecessary?

**RESPONSE:** See Response to Issue C.

**C. ISSUE:** What mechanism should be put in place if a carrier proposes to withdraw service?

**RESPONSE:** When a carrier is designated as a carrier of last resort, that carrier should be obligated to serve all customers within a specific geographic area at an approved tariffed rate. A properly set universal service fund will serve to protect the carrier of last resort from any possible undue burden and permit the carrier to earn a normal profit.

The issue of designating a carrier of last resort will likely arise in the future only if and when an incumbent LEC decides to withdraw service from a particular area. If an incumbent LEC desires to withdraw service from a particular geographic area, the ILEC should be required to notify the TRA. The TRA should require that the withdrawal of service, if requested, should only be permitted at the wire center level. The ILEC should not be permitted to "reverse cherry pick" - seek to withdraw services only to unprofitable lines within a wire center.

Once this notice of intended withdrawal is made with the TRA, the TRA should notify interested parties. If no party is willing to serve the customers that the ILEC proposes to abandon, then the designated service area should be put up for bid. A bidder should have to agree to serve the entire customer base of the designated geographic area for a lump sum amount above the per line subsidy. The bidder submitting the lowest bid would become the carrier of last resort. If the winning bid was not from the incumbent local exchange (ILEC), the ILEC should be required to sell its facilities to the winning bidder at the net book value of its facilities. To protect consumers, the new entrant would be required to meet certification requirements set by the state on the reliability of its network.

**PROPOSAL FOR COMMENT:** It appears that mechanisms need to be developed to address the possibility that a carrier of last resort may desire to withdraw service in one or all regions which it serves. Allowing a carrier of last resort to withdraw needs to be based on specific and predictable criteria. At a minimum, the Staff proposes that no carrier of last resort should be allowed to withdraw service prior to the designation of another carrier to serve as the carrier of last resort. Do you have any suggestions on the criteria that needs to be established in order to allow a carrier to withdraw as carrier of last resort?

**RESPONSE:** See response to issue C.

**D. ISSUE:** What criteria should be used to designate eligible telecommunication carriers?

**PROPOSAL FOR COMMENT:** The FCC concluded that the plain language of section 214 (e) precludes adoption of additional eligibility criteria beyond those enumerated in that section. Therefore, the FCC adopted without expansion the statutory criteria set out in section 214(e), as the rules governing eligibility. The Staff proposes to use the eligibility criteria of section 214(e) to designate eligible telecommunication carriers. Do you agree with this proposal?

**RESPONSE:** MCI believes the TRA should use section 214 (e) of the Federal Act and Section VI of the Federal Order.

**E. ISSUE:** Should Universal Service support be provided to cellular carriers and resellers.

**PROPOSAL FOR COMMENT:** The FCC adopted without expansion the statutory criteria set out in section 214(e) as the rules governing eligibility. The FCC interpreted the term “facilities” in section 214(e)(1) to mean any physical components of the telecommunications network that are used in the transmission or routing of the services designated for support under section 254(c)(1). The FCC further concluded that a carrier that offers any of the services designated for Universal Service support, either in whole or in part, over facilities obtained as unbundled network elements pursuant to section 251(c)(3) satisfies the “own facilities” requirement of section 214(e). The staff recommends that the TRA use the criteria set forth by the FCC and to the extent that cellular carriers or resellers meet these criteria, they should be provided Universal Service support. Do you agree with this recommendation?

**RESPONSE:** Yes.

## **VII. High Cost Support**

**A. ISSUE:** Addressed in comments filed on August 1, 1997.

**B. ISSUE:** If it is determined that Tennessee will do a cost study what would be the core elements? (i.e. residential, business, usage).

**RESPONSE:** The core elements would be the basic functionalities included in the definition of basic residential service and the cost study should reflect the economic cost of the unbundled network elements that make up basic residential service.

1. What area should be included in each cost study?

**RESPONSE:** The TRA should require costs to be deaveraged to the wire center level or below.

2. The FCC requires de averaging to the wire center serving area at least, and to smaller areas if feasible. Is this appropriate?

**RESPONSE:** Yes. MCI agrees this is appropriate.

**PROPOSAL FOR COMMENT:** FCC Order 97-157 sections 54.101 and 54.207 set forth the services designated for support and service areas. Is it appropriate for Tennessee to adopt these services? If not, what services do you believe should receive Universal Service support. Also please comment on how service areas may be defined in Tennessee.

**RESPONSE:** Yes. The TRA should adopt these services. Service areas should be small enough to permit full and open competition. If the TRA sets the service area to large (e.g. LATA wide) it would delay emergence of competition in Tennessee thereby denying the consumer the full benefits of competition.

**C. ISSUE :** What elements should be included in the revenue benchmark?

**RESPONSE:** No position at this time.

**PROPOSAL FOR COMMENT:** The Staff expects to use the elements that will be included in the national benchmark, (local, discretionary, interstate and intrastate access services, and other revenues used in the cost study.) Do you feel these are the appropriate elements to be included in the benchmark?

**RESPONSE:** No position at this time.

### **VIII. Support for Low Income Consumers**

**A. ISSUE:** Define a process to address any waiver requests of carriers to the no-disconnect rule.

**PROPOSAL FOR COMMENT:** The no-disconnect rule would prohibit disconnection of local service for Lifeline customers for non payment of toll charges. Despite the benefits of a no-disconnect rule for Lifeline consumers, the FCC recognized that state utility regulators would have the ability to grant carriers a limited waiver of the requirement under limited special circumstances. The Staff suggests that the TRA adopt the three requirements of the FCC for granting a waiver request. What is your position?

The FCC is raising Lifeline support from \$3.50 to \$5.25. The FCC will match ½ of state support up to an additional \$1.75 which will provide for a maximum of \$7.00 federal support.

**RESPONSE:** No position at this time.

**B. ISSUE:** Determine if the current level of state discounts for Lifeline should be changed.

**PROPOSAL REQUESTED:** Currently, Tennessee provides \$3.50 per month support for Lifeline. At the state's current level of funding (\$3.50/month) the FCC will provide an additional \$7.00 in federal support for a total of \$10.50 in support. If this level of support is maintained, then procedures may be considered to prevent Lifeline customers from receiving 100% free service. For instance, should a minimum amount be charged to the Lifeline customers? Please comment.

**RESPONSE:** No position at this time.

Tennessee has the option of reducing its monthly support amount, which in turn would reduce the federal funding. Any reduction in Tennessee's current funding of \$3.50 will result in a Federal reduction of one half of the amount of the Tennessee reduction, down to the minimum Federal funding amount of \$5.25. For example, Tennessee funds \$1.00, Federal minimum funding \$5.25. Federal matching of ½ of state is \$.50. This would provide total support of \$6.75. Please comment.

**RESPONSE:** No position at this time.

**C. ISSUE:** Develop funding mechanisms.

**PROPOSAL REQUESTED:** The TRA requests comments from the parties on how funding for this support can be accomplished.

**RESPONSE:** No position at this time.

## **X. Schools and Libraries**

**A. ISSUE:** Determine if additional intrastate support for eligible schools and libraries is needed.

**PROPOSAL REQUESTED:** During the July 15, 1997, TRA agenda, the Directors adopted the FCC matrix for federal funding to schools and libraries. In addition to this federal discount, the state currently has ISDN, School Parent Telecommunications Service, in Classroom Computer Access Service and Distance Learning Video Transport Service discounts available to schools and libraries.

**RESPONSE:** MCI believes the TRA should only adopt the FCC matrix for schools and library funding at this time.

1. Do any parties believe that more discounts to schools and libraries should be offered in addition to the federal discount matrix and the four state discounted services?

**RESPONSE:** MCI believes the existing federal funding is adequate at this time.

2. Should additional discounts to Internet services be provided by the state?

**RESPONSE:** MCI believes the existing federal funding is adequate at this time.

**B. ISSUE:** Develop funding mechanisms if needed.

**PROPOSAL REQUESTED:** Cost studies need to be submitted on the current state discounted services to determine if, in fact, schools and libraries are receiving a subsidy. Additionally, any other state discounted services will need studies to determine subsidies. Once the subsidy amounts are known a fund must be established to support the discounts. The TRA requests comments from the parties on how funding for this support can be accomplished. Please be specific and provide your view on whether support for schools and libraries should come from the same source of revenues used to support other Universal Service items.

**RESPONSE:** No position at this time.

**C. ISSUE:** Address as necessary any school and library petitions regarding pre-discount price.

**PROPOSAL REQUESTED:** The FCC noted that if schools and libraries believe the lowest corresponding price offered to them is unfairly high or low, they may seek recourse from the state. What procedures do you believe could be put in place to ensure that schools and libraries are offered the lowest possible price. Also, if a school or library petitions the TRA regarding the price, what criteria should be used to determine if in fact the price is unreasonably high?

**RESPONSE:** No position at this time.

## **XI. Support For Health Care Providers**

**A. ISSUE:** Determine if additional intrastate support for eligible health care providers is needed.

**PROPOSAL REQUESTED:** The TRA requests comments from the parties on whether additional health care discounts are needed.

**RESPONSE:** MCI believes that the existing federal funding is adequate at this time.

**B. ISSUE:** Develop needed funding mechanisms.

**PROPOSAL REQUESTED:** The TRA requests comments from the parties on how funding for this support can be accomplished.

**RESPONSE:** No position at this time.

## **XIII. Administration of Support Mechanisms**

**A. ISSUE:** Determine which companies qualify as non-rural carriers and are subject to 1/1/99 Universal Service support.

**PROPOSAL FOR COMMENT:** BellSouth and United Telephone Southeast are the only companies which the Staff has identified as non-rural carriers. Are there others?

**RESPONSE:** This requires a fact-based determination for companies other than BellSouth and United Telephone Southeast, which are non-rural carriers.

**B. ISSUE:** Determine method for transition from current support to new support.

**PROPOSAL REQUESTED:** The new support mechanisms approved will be the determining factor of the impact on transition from old support to the new system. Since the fund administrator is responsible for maintaining the new fund, it may be appropriate to allow the administrator to design a system for the transition. Please provide your opinion on a transition process.

**RESPONSE:** MCI is unsure of what transition process the question assumes. Other than the explicit universal service support mechanisms presently in place in the interstate jurisdiction, MCI is unaware of any explicit Tennessee universal service support mechanism.

**C. ISSUE:** Determine the structure of the intrastate Universal Service fund.



**RESPONSE:** The following responses assume that the TRA has made a determination as to the appropriate economic costs to provide basic residential local exchange service and the relevant revenues and that a subsidy is required.

1. How will it be created?

**RESPONSE:** The TRA should utilize its rulemaking process to create a state universal service fund.

2. Will it be consistent with or not consistent with the Federal fund?

**RESPONSE:** Any state universal service fund must be consistent with the federal universal service fund.

3. Who will contribute to it?

**RESPONSE:** All telecommunications providers of intrastate telecommunications services as defined in Section XIII of the FCC Order, and Section 254 of the Federal Act.

1. How often will contributions be made?

**RESPONSE:** Contributions should be made on an annual basis, but no less than a quarterly basis.

5. What basis should be used for contributions?

**RESPONSE:** Contributions should be assessed on the basis of each firm's share of total retail end user revenues net of payments to other carriers.

6. Who is eligible to receive support?

**RESPONSE:** See MCI Response to Issue VI. D.

7. How funds will be distributed?

**RESPONSE:** Funds should be credited to eligible telecommunications providers who are serving customers in wire centers where it has been determined that a subsidy requirement exists on a monthly basis.

8. How should the TRA ensure that the fund is non-discriminatory and competitively neutral?

**RESPONSE:** The TRA must first eliminate the implicit support contained in access charges and determine the amount of actual support needed, if any, and make that support explicit. Once the amount of universal service support is determined and made explicit, the TRA should require that all intrastate telecommunications providers of the type described in Section XIII of the FCC Order should be required to contribute on the basis of retail revenues net of payments to other carriers. Eligible telecommunications carriers, as described in section VI of the FCC Order, should be permitted to have access to support from the fund.

**PROPOSAL REQUESTED:** The TRA requests comments from the parties on these specific issues regarding the structure of the intrastate Universal Service Fund.

**D. ISSUE:** Determine notification requirements regarding companies' certification of rural carrier status.

**RESPONSE:** No position at this time.

**PROPOSAL REQUESTED:** A carrier must notify the FCC and its' state Commission, that for purposes of Universal Service support determinations, it meets the definition of a rural carrier. Carriers should make such a notification each year prior to the beginning of the Universal Service Fund payout period for that year. What procedures can be put in place to ensure that rural carriers satisfy this requirement?

**RESPONSE:** No position at this time

**E. ISSUE:** Determine need for public interest payphones and develop funding mechanisms, if required.

**PROPOSAL REQUESTED:** Please provide comments on what criteria you believe is necessary for determining the need for a public interest payphone. Funding for public interest payphones may come from various sources such as the Universal Service Fund or an additive or charge on payphone access lines. What type of funding mechanisms do you believe would be appropriate for funding of public interest payphones?

**RESPONSE:** No position at this time.

**A. ISSUE:** Determine if the TRA should administer the intrastate Universal Service Fund.

**PROPOSAL REQUESTED:** Please provide comments.

**RESPONSE:** The TRA should not administer the intrastate universal service fund. This is a function better left to private industry. The TRA should award a contract to administer the state universal service fund to a neutral third party, not affiliated with any of the telecommunications firms which will either pay into or receive disbursements from the fund

**G. ISSUE:** Appoint intrastate Universal Service Fund Administrator.

**PROPOSAL REQUESTED:** What criteria should be established to determine qualifications as fund administrator?

**RESPONSE:** See Response to Issue XIII.F.

**H. ISSUE:** Determine if contributions to the Universal Service fund may be recovered by contributors, (i.e. passed on to end users.)

**RESPONSE:** If contributions to a state universal service fund are required, this will represent a cost of doing business in Tennessee. Carriers will recover the cost of doing business in Tennessee in the prices that they charge their customers or go out of business.

In a competitive market, carriers will design pricing plans that may or may not include specific charges to customers for universal service contributions. The TRA should neither dictate that carriers recover their universal service contribution costs from end user surcharges nor prohibit carriers from recovering their costs from end users via a surcharge. Since consumers will have a choice, the TRA should let the competitive market dictate how carriers will recover their costs.

**PROPOSAL REQUESTED:** The FCC adopted a contribution assessment methodology that is competitive neutral and easy to administer. Contributions will be assessed against end users telecommunications revenues, revenues derived from end users for telecommunications, and telecommunications services, including SLCs. Please provide comments.

**RESPONSE:** The TRA should adopt a contribution assessment methodology that bases contributions on the amount of retail end user revenues net of payments to other carriers.

#### **XIV. Other**

**A. ISSUE:** Would the use of task forces, advisory committees, technical conferences and settlement conferences in this proceeding be helpful?

**RESPONSE:** Yes.

**PROPOSAL REQUESTED:** Some parties have commented that these groups would be helpful. If you believe these groups would be beneficial, explain where these groups or meetings make sense.

**RESPONSE:** Yes.

**B. ISSUE:** Determine intrastate funding requirements for Tennessee Relay Center (TRC).

**PROPOSAL REQUESTED:** Currently, the intrastate costs of operating the TRC are divided between intraLATA and interLATA for the state. The intraLATA portion is funded by all LECs based on their proportionate share of intraLATA minutes of use and the interLATA portion is funded by all interexchange carriers based on their proportionate share of interLATA minutes of use. Options for funding the TRC could include the current system, through the Universal Service Fund, or establishment of a separate fund. Which option do you believe would be best? The current fund is administered by BellSouth. Do you believe BellSouth should continue as administrator of the TRC fund?

**RESPONSE:** No position at this time.

**C. ISSUE:** Determine effect of BST stay on Universal Service.

**PROPOSAL REQUESTED:** If the court remands the case back to the TRA, then the price regulation audit will have to be re-done to conform with the courts ruling, which in turn would effect implicit subsidy calculations. If the court supports the TRA's decision, then revenues of certain

services will be lowered, thus reducing any implicit subsidies that may exist. Please provide your comments.

**RESPONSE:** No position at this time.

**D. ISSUE:** Determine any needed changes to TRA rules, state laws, etc.

**PROPOSAL REQUESTED:** Provide any necessary changes to TRA rules and/or State Laws to make them conform with the Federal Law.

**RESPONSE:** No position at this time.

**E. ISSUE:** Determine date that Universal Service will be re-addressed

**PROPOSAL FOR COMMENT:** The FCC is convening a Federal-State Joint Board to review the definition of Universal Service on or before January 1, 2001. The Staff would recommend that an intrastate Universal Service proceeding be held immediately following the Joint Board's decision. Please provide your comments.

**RESPONSE:** No position at this time.

**F. ISSUE:** Determine and implement service quality standards.

**PROPOSAL REQUESTED:** The FCC determined that states may impose service quality standards that are competitively neutral and further the goals of Universal Service. Consistent with these requirements, what service quality standards do you feel are necessary?

**RESPONSE:** MCI has no position on this issue at this time.

**G. ISSUE:** Are embedded cost studies appropriate to determine implicit subsidies?

**PROPOSAL FOR COMMENT:** Implicit subsidies are the support that currently exists for universal service elements. This current support is determined based on embedded costs, therefore, the Staff believes embedded costs are appropriate to determine implicit subsidies. Do you agree?

**RESPONSE:** MCI takes issue with the statement that "the current support is determined based on embedded costs" to the extent this implies that the level of support for universal service that is required has ever been determined. Historically, ILECs have established rates to produce revenues to recover their embedded cost in the context of rate cases and rate of return regulation. The ILECs have further indicated that all such revenues were needed to preserve universal service. The ILECs, however, have never been required to demonstrate the economic cost to provide basic residential service in order to determine what, if any, support was needed.

Embedded cost studies can determine the amount of revenues needed to provide the ILEC with a certain return on capital and recovery of expenses. This, however, has no relationship to the amount of subsidy or support needed to maintain universal service. Maintenance of universal service and preserving a certain level of return on capital for ILECs are not synonymous.

**H. ISSUE:** Determine method to calculate implicit subsidies (i.e. by element, group or category.)

**PROPOSAL FOR COMMENT:** The Staff believes that implicit subsidies should be calculated in the most efficient and least burdensome manner. To facilitate this, the Staff prefers that implicit subsidies be calculated by service group or categories. Please provide your comments.

**RESPONSE:** The implicit subsidies that are contained in access services can be measured by subtracting the economic cost of local switching and transport from the tariffed prices on a element by element basis. In addition, since there are no economic costs associated with the Common Carrier Line (CCL) and Residual Interconnect Charge (RIC), the price charged for these rate elements are implicit subsidies.

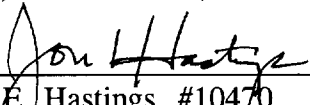
**I. ISSUES:** Determine effect of contracts between LECs (i.e. EAS, toll, private line, etc.) on subsidies.

**PROPOSAL REQUESTED:** Please provide comments.

**RESPONSE:** The TRA should require the ILECs to produce a copy of these contracts so that all parties to this Docket could have a chance to provide comment.

Respectfully submitted,

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### CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing has been served, via U. S. Mail, postage prepaid, to the following on this the 21<sup>st</sup> day of August, 1997:

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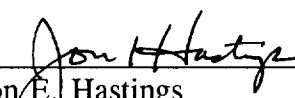
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